MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

PEM0024 – ESSENTIALS OF MICROECONOMICS

(All sections / Groups)

07 MARCH 2018
2.30 p.m - 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 10 printed pages with:
   Section A: Forty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Opportunity cost is _____.
   A. the additional cost of producing an additional unit of output.
   B. the additional cost of buying an additional unit of a product.
   C. a cost that cannot be avoided, regardless of what is done in the future.
   D. that which we forgo, or give up, when we make a choice or a decision.

2. Different economic systems _____.
   A. answer different types of basic economic questions.
   B. use both the same basic economic questions and answers.
   C. are different in terms of basic economic questions and answers.
   D. use the same set of basic economic system questions with different answers.

3. The concave shape of the production possibilities curve is a result of _____.
   A. increasing opportunity cost.
   B. decreasing opportunity cost.
   C. linear opportunity cost.
   D. inconsistent opportunity cost.

4. An upward movement along a demand curve is due to an increase in _____.
   A. the price of the good.
   B. the number of buyers.
   C. the number of suppliers.
   D. the price of substitute good.

5. Which of the following factors is not a determinant of demand?
   A. Price of the good itself.
   B. Consumers' preference.
   C. Technological advancement.
   D. Consumers' income.

6. Which of the following pairs are complement goods?
   A. Coffee and creamer.
   B. Coffee and tea.
   C. Fresh milk and low-fat milk.
   D. Fresh milk and soy milk.

7. Movement along a supply curve for Good X is due to _____.
   A. the festive season.
   B. the change in technology.
   C. the change in the price of Good X.
   D. the increase in the price of substitute goods.

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8. Market equilibrium occurs when _____.
   A. price is lower than equilibrium price.
   B. price is higher than equilibrium price.
   C. quantity demanded equals quantity supplied.
   D. quantity demanded is greater than quantity supplied.

9. When price is above equilibrium price, _____.
   A. the price will increase.
   B. the price will be unchanged.
   C. there would be a surplus.
   D. there would be a shortage.

10. The coefficient of price elasticity of supply for good ABC is 5.5. Therefore, the demand for good ABC is _____.
   A. elastic.
   B. inelastic.
   C. unitary elastic.
   D. perfectly elastic.

11. The price elasticity of demand can range between _____.
   A. zero and one.
   B. zero and infinity.
   C. negative one and one.
   D. negative infinity and infinity.

12. A horizontal demand curve _____.
   A. shows the price elasticity is infinity.
   B. describes a good with no close substitutes.
   C. shows the price elasticity of demand is zero.
   D. shows the income elasticity of demand is zero.

13. Which of the following factors is not a determinant of supply?
   A. Number of sellers.
   B. Cost of production.
   C. Number of consumers.
   D. Technology advancement.

14. Assume that there are two commodities. A positive cross-elasticity of demand indicates that the two commodities are _____.
   A. essential goods.
   B. inferior goods.
   C. substitute goods.
   D. complementary goods.

15. Price elasticity of supply is not influenced by _____.
   A. time frame.
   B. perishability.
   C. the price of other related goods.
   D. improvement in production technology.

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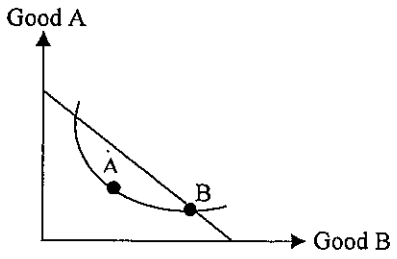
16. When marginal utility is decreasing but positive, total utility is _____.
    A. increasing at a decreasing rate.
    B. increasing at an increasing rate.
    C. decreasing at a decreasing rate.
    D. decreasing at an increasing rate.

Exhibit 1



17. Which of the following statement is correct about **Exhibit 1**?
    A. The consumer prefers B to A.
    B. The consumer prefers A to B.
    C. Points A and B yield the same level of satisfaction.
    D. B is a point of consumer equilibrium.

18. A parallel leftward shift of a consumer's budget line could indicate that _____.
    A. the consumer's income has decreased.
    B. the price of one product has increased in relation to the other.
    C. the price of both goods have decreased in the same proportion.
    D. the marginal utilities derived from both products have decreased..

19. The law of diminishing marginal utility implies that as a person consumes more and more of a given good, _____.
    A. the marginal utility will eventually decline.
    B. the total utility will decrease and then increase.
    C. the marginal utility will eventually become negative.
    D. the average utility will become negative and then positive.

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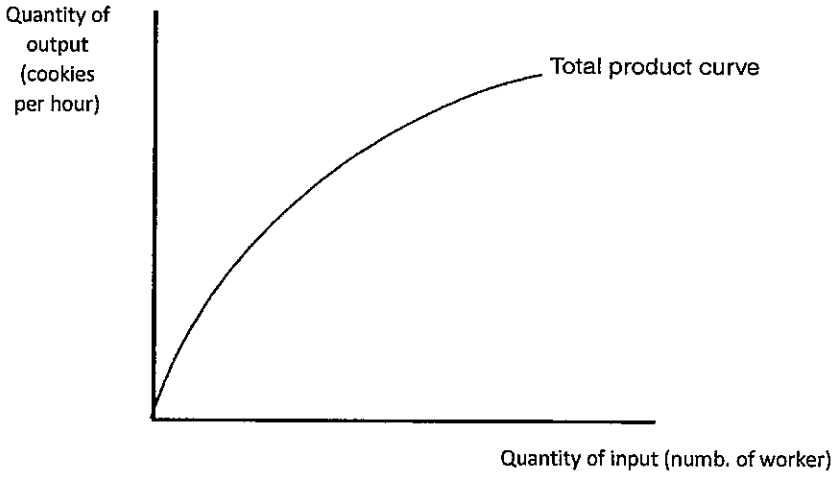
Exhibit 2: A production function for a firm that produces cookies



20. In **Exhibit 2**, as the number of workers increases, _____.
    A. total output decreases.
    B. total output increases, but at a decreasing rate.
    C. marginal product increases at an increasing rate.
    D. marginal product increases, but at a decreasing rate.

21. With regard to cookie production from the **Exhibit 2**, the figure implies _____.
    A. decreasing cost of cookie production.
    B. increasing marginal product of workers.
    C. diminishing marginal product of workers.
    D. diminishing marginal cost of cookie production.

22. Explicit costs _____.
    A. require an outlay of money by the firm.
    B. include all of the firm's opportunity costs.
    C. include income that is forgone by the firms' owners.
    D. Both b and c are correct.

23. Which of the following expressions is correct?
    A. accounting profit = total revenue - explicit costs.
    B. economic profit = total revenue - implicit costs.
    C. economic profit = total revenue - explicit costs.
    D. Both A and B are correct.

24. The marginal product of an input in the production process is the increase in _____.
    A. profit obtained from an additional unit of that input.
    B. total revenue obtained from an additional unit of that input.
    C. total revenue obtained from an additional unit of that output.
    D. quantity of output obtained from an additional unit of that input.

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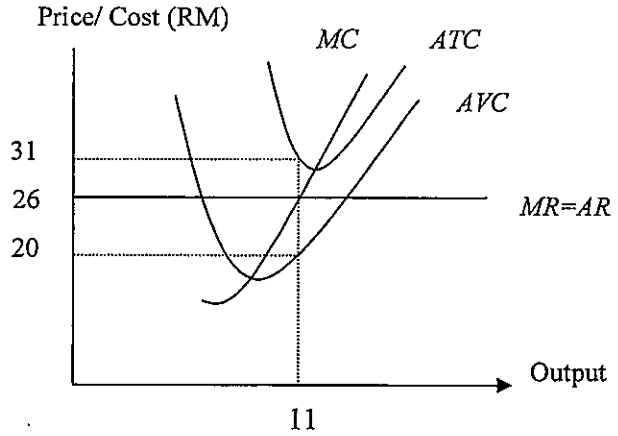
Exhibit 3: A perfectly competitive firm in the short-run.



25. Refer to **Exhibit 3**. In equilibrium, what is the firm's average fixed cost?
    A. RM6.
    B. RM10.
    C. RM11.
    D. RM20.

26. Refer to **Exhibit 3**. If the firm continues to operate, the amount of losses incurred by the firm is
    A. RM10.
    B. RM36.
    C. RM55.
    D. RM65.

27. Refer to **Exhibit 3**. If the firm chooses to temporarily stop production, the amount of losses incurred by the firm is
    A. RM80.
    B. RM98.
    C. RM121.
    D. RM125.

28. The main reason that firms in perfect competition make no profit in the long run because _____.
    A. firm lose competitiveness.
    B. costs rise faster than prices.
    C. some firm exit the industry and are replaced.
    D. if there is profit, new firms will be attracted to join the industry and profit will be competed away.

29. If a firm has no ability to decide on the price of its product, it _____.
    A. is a price maker.
    B. cannot maximise profit.
    C. is a monopolistically competitive firm.
    D. faces a horizontal individual demand curve.

Continued...

30. Suppose that in a perfectly competitive market, firms are making economic profits. What will happen in the long run?
    A. Some firms leave.
    B. The market price rise.
    C. Market supply shift to the left.
    D. Economic profits will be driven to zero.

31. When a perfectly competitive firm decides to shut down, it is most likely that _____.
    A. fixed costs exceed variable costs
    B. marginal cost is above average total cost
    C. marginal cost is above average variable cost
    D. price is below the firm's average variable cost

32. Perfect competition and monopoly are similar in terms of _____.
    A. long run profit.
    B. price determination.
    C. the demand curve.
    D. the profit maximization condition, MR = MC.

33. A monopolists' average revenue is always _____.
    A. equal to marginal revenue.
    B. equal to the price of its product.
    C. less than the price of its product.
    D. greater than the price of its product.

34. For a profit-maximising monopolist, _____.
    A. P > MR = MC.
    B. P = MR = MC.
    C. P > MR > MC.
    D. MR < MC < P.

35. A monopolistically competitive firm and a (n) _____ firm earn the same long run profit.
    A. perfectly competitive
    B. monopolist
    C. oligopolist.
    D. duopolist

36. Which of the following market structures will have the most difficult entry of new firms?
    A. Monopoly.
    B. Oligopoly.
    C. Perfect competition.
    D. Monopolistic competition.

Continued...

37. The demand curve of a monopolistic competition is _____ than a monopoly, due to the existence of _____.
    A. more elastic; product differentiation
    B. more elastic: homogeneous products
    C. less elastic; complementary goods
    D. less elastic; advertisement expenditure

38. As a group, oligopolists would always be better off if they would act collectively _____.
    A. as a single monopolist.
    B. as a single perfectly competitive firm.
    C. in a manner that would prohibit collusive agreements.
    D. as if they were each seeking to maximize their own individual profits.

39. In a monopolistically competitive industry, firms set price _____.
    A. equal to marginal cost since each firm is a price taker.
    B. below marginal cost since each firm is a price taker.
    C. above marginal cost since each firm is a price setter.
    D. always a fraction of marginal cost since each firm is a price setter.

40. An oligopoly is a market in which _____.
    A. firms are price takers.
    B. the actions of one seller in the market have no impact on the other sellers' profits.
    C. there are only a few sellers, each offering a product similar or identical to the products offered by other firms in the market.
    D. there are many price-taking firms, each offering a product similar or identical to the products offered by other firms in the market.

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SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

As shown in **Exhibit 4**, a consumer is able to consume the following bundles of pizza and fried chicken when the price of pizza is RM2 per slice and the price of fried chicken is RM2.50 per piece.

Exhibit 4

Pizza	Fried chicken
50	0
35	12
25	20
0	40

a) How much is this consumer's income?

(4 marks)

b) Draw a budget constraint given this information in **Exhibit 4**. Label the budget constraint as B. (4 marks)

c) Construct a new budget constraint showing the change if the price of pizza per slice falls to RM1. Label it as C. (6 marks)

d) Construct a new budget constraint if this consumer's income doubles. Label it as D.

(6 marks)

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Question 2 (20 marks)

Exhibit 5 shows the relationship between total product of Good Z and the number of workers employed.

Exhibit 5

Capital	Workers	Total Product	Average Product	Marginal Product
100	0			-
100	1			10
100	2			16
100	3			14
100	4			11
100	5			8
100	6			5
100	7			2
100	8			0
100	9			-4

a) Calculate the total product and the average product. Reproduce the table in the Answer Booklet.

(10 marks)

b) Over what range of employment do you see diminishing returns to labour? Explain.

(5 marks)

c) Based on your answers in (a), sketch a diagram of the Average Product (AP) and Marginal Product (MP) curves. Explain the relationship between these two curves.

(5 marks)

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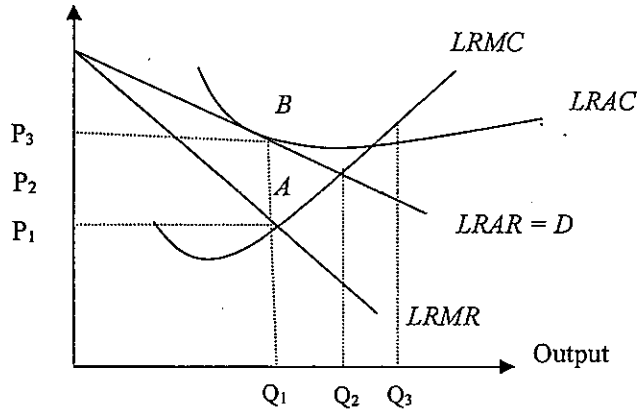
Question 3 (20 marks)

a) Discuss the differences between a perfect competition and a monopoly market in terms of
   i. characteristics of each markets,
   ii. long run equilibrium,
   iii. price and quantity,
   iv. efficiency level.

(14 marks)

b) **Exhibit 6** shows the monopolistically competitive firm in the long-run:

Exhibit 6



i. What is the equilibrium price? Explain your answer. (3 marks)
ii. Is the firm is operating at full capacity? Justify your answer. (3 marks)

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